MULTIMEDIA UNIVERSITY STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BBF3044–CORPORATE FINANCIAL MANAGEMENT

(All sections / Groups)

14 MARCH 2018
9.00a.m–11.00a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 2 pages with 4 Questions only.

2. Attempt all the **FOUR** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a. You are the financial manager of a corporation. In order to make a right decision, you must examine what the capital markets have to offer and use this information to arrive at an estimate of the project's cost of capital. Briefly explain on why the study of cost of capital is important. (12 marks)

b. Discuss the impact(s) of taxes on the corporation's weightage average cost of capital (WACC). (6 marks)

c. The outstanding bonds of Suria Excel are priced at RM989 and mature in 8 years (2025). These bonds have a 6 percent coupon and pay interest annually. The company's tax rate is following the national rate for Malaysia. Determine the firm's after tax cost of debt. (7 marks)

(Total: 25 marks)

QUESTION 2

a. Ceria Multi Inc., has sales of RM836,000 and cost of goods sold of RM601,000. The firm had a beginning inventory of RM41,000 and an ending inventory of RM47,000. What is the length of the inventory period? If the benchmark of the inventory period is 21.5 days, what is your advice to Ceria Multi Inc.? (10 marks)

b. All else equal, firms with (1) excess capacity, (2) low variable costs, and (3) repeat customers, are more apt to offer liberal credit terms to their customers than are other firms. Explain why this tendency exists. (15 marks)

(Total: 25 marks)

QUESTION 3

a. Determine the standard deviation of the returns on a portfolio that is invested in stocks A, B, and C. Twenty-five percent of the portfolio is invested in stock A and 45 percent is invested in stock C.

		Rate of return if state occurs		
State of economy	**Probability of State of Economy**	**Stock A**	**Stock B**	**Stock C**
Boom	10%	20%	9%	25%
Good	50%	10%	12%	17%
Poor	40%	-5%	20%	-27%

(15 marks)

Continued...

b. A portfolio beta is a weighted average of the betas of the individual securities which comprise the portfolio. However, the standard deviation is not a weighted average of the standard deviations of the individual securities which comprise the portfolio. Explain why this difference exists. (4 marks)

c. New Schools, Inc. expects an EBIT of RM7,000 every year forever. The firm currently has no debt, and its cost of equity is 17 percent. The firm can borrow at 8 percent and the corporate tax rate is 34 percent. What will the value of the firm be if it converts to 50 percent debt? (4 marks)

d. City Center Pharmacy has 11,500 shares of stock outstanding with a par value of $1 per share and a market value of $10 a share. The company just announced a 3-for-7 reverse stock split. What will the market value per share be after the reverse stock split? (2 marks)

(Total: 25 marks)

QUESTION 4

a. Describe the foreign currency and home currency approaches to capital budgeting for a foreign project. Which is better? Which approach would you recommend a U.S. firm use? Justify your answer. (6 marks)

b. You are planning a trip to Australia. Your hotel will cost you A$145 per night for seven nights. You expect to spend another A$2,800 for meals, tours, souvenirs, and so forth. How much will this trip cost you in U.S. dollars given the following exchange rates?

Country	U.S. $ Equivalent	Currency per U.S. $
Australia	0.6707	1.4910

(5 marks)

c. You have 100 British pounds. A friend of yours is willing to exchange 180 Canadian dollars for your 100 British pounds. Determine your profit or loss (in British pounds) if you accept your friend's offer, given the following exchange rates.

Country	U.S. $ Equivalent	Currency per U.S. $
Canada	?	1.2103
U.K.	1.6100	?

(5 marks)

d. Identify the three basic legal procedures that one firm can use to acquire another and briefly discuss the advantages and disadvantages of each. (9 marks)

(Total: 25 marks)

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